

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 453 - SB 552**

March 14, 2021

**SUMMARY OF BILL:** Exempts from the sales and use tax tangible personal property purchased from small businesses, when purchased on any Monday between July 1, 2021 and June 30, 2022. Defines a small business as a business entity with annual gross receipts that do not exceed \$4,000,000.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$463,960,900/FY21-22**

**Increase State Expenditures – \$198,771,500/FY21-22**

**Increase Local Revenue – \$9,441,600/FY21-22**

**Assumptions:**

- According to the Department of Revenue (DOR), data on sales by the day of the week is unavailable. Furthermore, the extent of cannibalization of sales from other days of the week is unknown.
- Based on information provided by DOR, the number of businesses that qualify for this sales tax exemption is estimated to be greater than 130,000.
- According to the 2014 United States Annual Survey of Entrepreneurs the average small business generates approximately \$390,000 of sales per year, or \$1,068 ( $\$390,000 / 365$  days) a day, then the annual decrease in taxable sales for FY21-22 is estimated to be \$7,219,680,000 ( $\$1,068 \times 52 \text{ Mondays} \times 130,000 \text{ businesses}$ ).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 67-6-710(h), the state will reimburse any local losses of revenue from sales tax holidays; therefore, any decrease in local revenue will correspond with an increase in state expenditures to reimburse locals for such loss.
- The one-time decrease in state revenue is estimated to be \$487,098,092  $[(\$7,219,680,000 \times 7.0\%) - (\$7,219,680,000 \times 7.0\% \times 3.617\%)]$ .
- The one-time increase state expenditures is estimated to be \$198,771,508  $[(\$7,219,680,000 \times 2.5\%) + (\$7,219,680,000 \times 7.0\% \times 3.617\%)]$ .
- Fifty percent of tax savings, or \$342,934,800  $[(\$487,098,092 + \$198,771,508) \times 50\%]$  will be spent in the economy on other sales-taxable goods and services.

- The one-time increase in state revenue is estimated to be \$23,137,159 [ $(\$342,934,800 \times 7.0\%) - (\$342,934,800 \times 7.0\% \times 3.617\%)$ ].
- The one-time increase in local revenue is estimated to be \$9,441,647 [ $(\$342,934,800 \times 2.5\%) + (\$342,934,800 \times 7.0\% \times 3.617\%)$ ].
- The one-time net decrease in state revenue is \$463,960,933 ( $\$487,098,092 - \$23,137,159$ ).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Bojan Savic". The signature is written in a cursive, flowing style.

Bojan Savic, Interim Executive Director

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